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# Economics as norms contestation: the construction of crisis response in the transatlantic space

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## Abstract:

In 2011, Iceland President Ólafur Ragnar Grímsson argued that the financial crisis that so roiled his country had shown that political science could no longer “play second fiddle to the models of modern economics.” Implicit in this statement is one of the governing myths of modern economics, namely that economic models are objective, predictive, scientific frameworks that explain the naturalistic operation of economic forces. Yet, the ongoing financial crisis demonstrates that economics is instead something far more social. We argue that in the response to the crisis, economic models have functioned as packages of norms that establish the field of political contestation, delimiting the range of policy responses. If economic models function as packages of norms rather than value-neutral explanations of economic functionality, then they become amenable to analysis using the tools developed in constructivism. Specifically, we draw on Checkel’s work exploring the factors that shape norm diffusion to examine the dynamics of norms contestation, seeking to understand difference in economic norms acceptance and the role of economic-models-as-norms-packages in the transatlantic debates over how to address the crisis. We find that constructivism may not take us far enough to explain the paradox of the

austerity push in Europe and therefore propose a coupling of constructivist insights with a more critically inspired IPE approach.

## Introduction

In early 2012, news stories on the deepening European sovereign debt crisis reported that some in the Greek media repeatedly referred to Germany and its leaders as Nazis (Heyer and Batzoglu, 2012). Other reports pointed to increasing resentment of Germany across Europe. The European Union (EU), at the behest of Germany and other likeminded states in the north, pressed the southern countries facing financial instability to implement a difficult package of neoliberal economic policies focused on government austerity as a condition of economic support. The policy was and continues to be a striking one. The Europeans—particularly the Germans—had argued that the start of the global financial crisis in 2008 was the product of the neoliberal economic structures of the United States. The implication was that the social market and social democratic models of Europe, with their greater involvement in managing economic systems, represented a superior form of political economic organization (Associated Press, 2008). And yet, as the 2008 financial crisis shifted from the United States to Europe, a role reversal took place. The United States found itself with increasing regularity advising the EU against neoliberal economic policies even as these policies gained strength (Castle and Story, 2011). These policies have continued apace despite strong criticism from U.S. macroeconomists like Paul Krugman (Krugman, 2011) and the International Monetary Fund. Even the traditionally neoliberal newspaper *The Economist* has critiqued Europe's austerity drive (The Economist, 2012).

Much of the attention on the Euro crisis focuses on the causes as well as tactical level responses by European leaders. For example, in a symposium on the crisis in the *Journal of Common Market Studies* (Verdun, 2012), not one article discussed the broader reasons for the European approach to the crisis. Driving much of this discussion is an underlying assumption of economics as problem solving, that the primary issue is finding the correct technical fix or fixes to bring the system back in balance. We adopt a different starting point for analysis. Our focus is on the larger strategic decision by EU leaders. Specifically, the adoption of neoliberal inspired economic policies by the EU is the central puzzle of this article. How did austerity come to take on such a prominent place in European economic policy? Why were the northern European states the most vested in pursuing neoliberal economic policies? In an effort to account for these questions, we conceptualize economics and its theories not as pseudo-natural laws but instead packages of norms prescribing the ways in which states, policymakers, and societies should understand and engage with the economy. To understand then why some norms are accepted over others, we turn to the work of Jeffrey Checkel and other constructivists, who emphasize focusing on the ways in which international norms do or do not resonate with domestic social structures. In asking these questions, however, we also tap into a larger discussion regarding the competition within capitalist societies between neoliberal and social democratic or social market economics. This competition can be understood not as a contest to determine which system 'objectively' governs the political economy better, but rather which set of economic norms society will abide. In discussing these issues, this article begins to bridge the gap between constructivist and critical studies of the international political economy.

The paper proceeds as follows. In the next section we discuss scholarship on the linkage between international norms and domestic socio-political structures. We also in this section address the literature applying constructivist theories to international political economy. In the

second section, we develop an analytical framework for understanding the crisis in Europe. We follow this with an exploration of the social and political dynamics of the crisis. Finally, we conclude with thoughts about the social nature of economics and the linkages between critical and constructivist studies of international political economy.

## **International Norms and Domestic Impact**

Constructivism, arising as it did in the context of international theory concerned with the influence of international structures, initially focused on the role of international social structures in driving state behavior (Wendt, 1999). In part that focus fit the prevailing conception of the study of international relations, but in part it was a strategic move designed to confront the so-called 'mainstream' theories of structural realism and neoliberal institutionalism on their own ontological ground. Even so, as constructivism came into its own voices called for greater attention to how exactly international norms shape state behavior. Klotz's work on the influence of global anti-apartheid norms in shaping altering U.S. foreign policy stands out as an early example (Klotz, 1995). The calls for understanding how international norms interact with domestic social and political structures were perhaps most clearly elucidated in work by Jeffrey Checkel, Andrew Cortell, and James Davis. Cortell and Davis identify two factors that condition the ability of political actors to appeal to international norms in order to influence state behavior: domestic political structure and the domestic salience of the norm (Cortell and Davis, 1996, Cortell and Davis, 2000). In this argument, norms are political tools actors use to further their interests. Their ability to do so depends on the level of decision-making centralization and the relation of the state to society. More important from our perspective is their concept of salience. According to Cortell and Davis, the salience of international norms is the legitimacy they are granted in the domestic context. They envision legitimacy as existing on a spectrum, from outright dismissal by the state to full discursive and legal integration of the norm into the state. In line with their utilitarian perspective on norms, the authors then go on to hypothesize about the different ways in which political actors draw on norms depending on the configuration of political structure and norm salience.

Perhaps arising from their political rationalist or utilitarian perspective, Cortell and Davis underdevelop the concept of salience. For example, in their 1996 article the authors go into some detail regarding the ways in which political structure conditions the influence of norms, yet less than a page is dedicated to exploring salience, and much of it refers to either the 'state' or policy makers. The social structures that inform salience are left aside. In their defense, Cortell and Davis later identify the literature-wide failure to engage the concept of salience or legitimacy as one of the shortcomings impeding further progress on understanding the domestic impact of international norms (Cortell and Davis, 2000:67).

Building on Cortell and Davis, but taking a more explicitly constructivist approach, Checkel also sets out a framework for understanding how political and social structures condition norm acceptance (Checkel, 1997, Checkel, 1999). Like Cortell and Davis, Checkel also pays attention to political actors as norms agents. Similar to Cortell and Davis, Checkel holds that political structure shapes norms acceptance, although Checkel's approach emphasizes the ways in which shifts in political structure shift the constraining versus constitutive influence of international norms. The more political authority is concentrated and the greater the distance of the state from society, the more norms take on constitutive characteristics. This is because as power is concentrated and policy makers are removed from society, the less influence society (or groups within in it) are able to exert, thus reducing the constraining effect of norms *from the*

*perspective of the policy maker.* That is, in highly politicized contexts policy makers operate as Cortell and Davis envision, as rational actors using norms in a utilitarian way to pursue their interests. Conversely, the constitutive nature of norms increases, because for norms to impact policy as authority is concentrated they must reshape her/his conceptions of her/himself and the world. Paralleling Cortell and Davis's concept of salience, Checkel forwards a claim that 'cultural match' conditions the willingness of policy makers to take on international norms. This effect operates on a sliding scale. Where domestic norms contradict the international norm, the odds of empowerment are low, and where domestic norms mirror the international norm, the odds of empowerment are high. In most cases, however, the match between domestic culture and international norms is somewhere between the two extremes.

The approaches set out by Cortell and Davis as well as Checkel draw the attention of analysts back to the domestic context, a crucial move in a world where the social, political, and economic fabric within states is much thicker than it is between states. Thus, if we are to understand international dynamics, scholars cannot assume away domestic dynamics. However, in applying these approaches to the EU highlights some weaknesses in thinking about the influence of international norms. The authors tend to think about the norms dynamic in terms of a relatively simple domestic-international binary. Yet, in the EU the system of governance is more complicated, with power distributed across states and within the EU-level governance structures. While this complexity does not automatically mean that the approaches laid out by Checkel and Cortell and Davis are flawed, it does provide reason for careful examination. In particular, the absence of thinking about the role of bureaucracy—a high profile element in the EU—as a third element apart from policy makers and society is notable. Also underdeveloped is the concept of identity apart from norms. Checkel's cultural match is suggestive of identity, but he focuses on cultural norms rather than on broader identity. Again, the EU crisis suggests that identity plays an important role in norms acceptance. The discourses in the EU crisis are loaded with identity, from northern assumptions of 'lazy southerners' to the use of Nazi imagery in the south (Böll and Böcking, 2011, Heyer and Batzoglou, 2012, Judah, 2012). Thus, norms acceptance is linked to more than just domestic norms. It is linked to how states and societies understand themselves in the regional and global context. Certainly norms are part of this, but they are interlinked as part of identity packages (Hayes, 2012). Finally, there is a sense in which domestic politics is underdeveloped in both approaches. While Checkel as well as Cortell and Davis emphasize the importance of domestic politics, both focus largely on policy makers (Checkel less so). Relatedly, both also do not conceive of norms as discursive constructions, instead largely envisioning the interaction of international norms and domestic political and social structure as something almost mechanical, of pieces being fitted together—either rationalist political actors using norms for utilitarian ends (Cortell and Davis) or policy makers constrained by norms imposed by society (Checkel). Admittedly, Checkel's emphasis on social learning is far more accommodative of understanding the social nature of norms, he largely limits this to non-politicized systems (e.g. nondemocracies). Yet the discursive or communicative turn (Krebs and Jackson, 2007, Müller, 2004, Risse, 2003, Schmidt, 2010) in International Relations suggests that the relations between state and society as well as norms as traditionally understood by constructivists—in terms of appropriateness and constitution—remain important in politicized contexts.

The application of constructivist approaches to the crisis presumes a specific perspective on the nature of the political economy. That is, that economic processes and behavior is socially constructed rather than rationally or mechanically determined. In other words, economic

systems are social systems informed by social mechanisms and processes. While constructivist approaches in IR have gained significant ground in many areas of International Relations, they have only slowly penetrated the study of international political economy. This lacuna or lag in the application of constructivist approaches to IPE scholarship was in fact a primary motivation of the edited volume produced by Abdelal, Blyth and Parsons, *Constructing the International Economy* (2010). A brief overview of the central arguments made by the editors as well as a synthesis of some of the core insights of the contributors will be discussed here highlighting the opportunity for the approach taken in our paper, namely the simultaneous engagement of both critical and constructivist perspectives on how to better understand and interpret the causes and consequences of the crisis in order to make sense of and properly analyze US and European discourses and policy responses to it.

Resonant with the claim posited at the outset of our paper that economic activity is far more social than most economists (and for that matter, political scientists who merely deploy economic theories of human behavior to investigate political phenomena) acknowledge, the editors of *Constructing the International Economy* advance the argument that a purely materialist view of theory is simply untenable. Embracing such a view, the authors therefore urge scholars to at least entertain the possibility that “economies might vary substantially for nonmaterialist reasons” (2010:2). If indeed the critical, shared insight of constructivism is that collectively held ideas fundamentally shape the social, economic, and political worlds we inhabit, then theories and explanatory models that do not concede that behavior whether at the individual, firm or government level is not reducible to structural or materially derived incentives will produce incomplete or spurious analyses at best. Nonetheless, a recent survey of IPE scholarship by two mainstream, well known scholars revealed that the IPE subfield was marked by a near consensus on the theories, methods and approaches and research questions deemed important at least by North American scholars if less the case in European scholarship (Frieden and Martin, 2003). And noticeably absent from the survey was any substantial room for the role that norms, ideas and identities play in explaining policy outcomes or actions of states. According to conventional thinking in mainstream IPE scholarship then, action varies not by different perceptions or interpretations of the world but rather with the resources held or strategic positions occupied by actors that determine interests and therefore allow observers and analysts to predict or explain action and behavior. Such a rationalist and thoroughly materialist view is what is being challenged by constructivist theory generally of course and so a brief discussion of how or why constructivism has become more prevalent in the general IR literature than that of IPE is quite illuminating.

Why is it that the main preoccupations of IR theory—the study of conflict and cooperation, war and peace between states have become saturated with constructivist theories and arguments to the point that Abdelal, Blyth and Parsons suggest that arguments about social constructions and emphasis on identities, norms and symbols appear commonsensical or even border on becoming clichés and yet we observe no such development in IPE scholarship? In essence, the influence of Peter Katzenstein’s book *The Culture of National Security* has seen no parallel in the subfield of IPE (1996). An unsurprising but still rather ironic fact is that the prediction (or even rough anticipation) by IPE scholars of the current financial crisis was as absent from theoretical and empirical scholarship as was the remarkable failure of IR theories to foresee the collapse of the Soviet Union. Could one surmise that the current reverberations of the 2008 US generated financial crisis, now full-blown global (if more acutely felt in Europe) crisis is the economic equivalent to the geopolitical and strategic changes and uncertainties of the

immediate post- Cold War period? Even if a bit exaggerated, perhaps the theoretical and empirical lessons learned from Katzenstein's constructivist turn could bring added value to what we might call the crisis of reason stemming from the multidimensionality of the latest capitalist crisis.

If the *Varieties of Capitalism* school has any continued relevance surely it is that there is no single logic or institutional symmetry that obtains in the various models of capitalist democracies (Hall and Soskice, 2001). Indeed comparative political economy is replete with studies arguing against the globalization induced convergence thesis (Albert, 1993, Berger and Dore, 1996, Birchfield, 2008, Boyer and Drache, 1996, Hollingsworth and Boyer, 1997). So why has Europe missed its moment to firmly assert a different norm constellation and policy shift away from the morally depleted and economically corrosive ideologies of neoliberalism and instead rally around the virtues of "Social Europe" in more than rhetoric? Is it in fact the case as (Apeldoorn, 2002) and Carfruny and Ryner (2007) argued that the European Monetary Union heralded an already compromised and thoroughly subordinated European position in the face of both the consolidation of transnational European capital as well as US financial hegemony? Or, are these arguments not as overdetermined as mainstream rationalist and neorealist approaches in IPE particularly those that misapprehend the real structural power of the US even in the midst of the worst economic crisis since the Great Depression? We return to this question in the conclusion but for now, it provides a foreground of how constructivist theorizing when juxtaposed to more critical renderings of the causes and consequences of the crisis help us discern the chasm between the discourse and the policy actions taken in Europe and the United States and the surprising role of the IMF.

### **Multiple paths to constructivism: Meaning, Cognition, Uncertainty and Subjectivity**

In *Constructing The International Economy*, the editors map out four pathways to constructivist theorizing in the hopes of persuading the audience, particularly the IPE skeptics, that much can be gained from engagement and debate between constructivist and more materialist or rationalist oriented scholars. Although there are varying justifications undergirding each pathway, each of the logics supply a specific rationale for empirical research that explores how much social construction matters, how social constructs emerge in the first place and what the mechanisms of their effect might be. Essentially what the editors attempt to do is to clarify some of the misconceptions about constructivist scholarship, not to "pillory any and all materialist claims about politics" but to show that constructivists come from a diverse array of theoretical starting points and should be not reduced to being against science and explanation-- though some may indeed use slightly different language than mainstream nonconstructivists. (Abdelal, et al., 2010:8)

The first and most common route or justification for constructivist theorizing is the path of meaning. Tracing this line of thinking back to Max Weber and up through the work of Nicolas Onuf and Alexander Wendt, the fundamental starting point is the acknowledgement that humans are dependent on meaning and interpretation and that various identities are constituted through the authority relationships that make those identities knowable to others. Thus, explanations that are not concerned with how actors assign meanings and how those meanings may vary across contexts or in terms of myths, symbols, norms, etc., will inevitably miss out on vital information that may explain how actors prioritize choice, construct motivations for action and produce outcomes (in the materialist sense). Ultimately, meaning-oriented constructivists hold:

that societies and policymakers rarely, if ever, interpret the world around them in purely material terms. Rather, they endow the economies in which they are embedded with social purpose. These purposes are embedded in a variety of collective identities, including national identities. Economic activity and international interdependence tend to be treated not as ends in themselves or as brute material constraints, but rather as modes of acting within the world according to different constituted identities. How societies interpret the material processes of production and distribution, or how policymakers recognize patterns of interdependence as natural or worrisome, reflects purposes shared among members of identity group. (Abdelal, et al., 2010:9)

The authors point out that a more institutional approach to meaning (Abdelal, 2007, Barnett and Finnemore, 2004, Kirshner, 2003) asserts that norms of appropriate behavior are implied by various state identities and that international norms come to define the boundaries of legitimate policymaking. This observation is particularly interesting for understanding the crisis responses on both sides of the Atlantic, which we will return to in the final section, but for here it is important to raise the question of how the norm of neoliberal hegemony has been challenged, contested or as the case seems to be at the moment, even further solidified by the various crisis responses in Europe at both the national and the EU levels in conjunction with the IMF and via various discursive interventions of the United States.

The second pathway or rationale for constructivist analysis is through cognition, namely the observation that agents do not so much seek meaning or purpose but rather they “filter information from the environment via heuristics and biases and consider it in highly selective ways that vary across social settings” (Abdelal, et al., 2010:10). With regard to how social constructs arise and how social construction matters and via which mechanisms, cognitively oriented scholars hold that social constructs come to shape action not from a need to attach meaning but because actors need ‘stabilizing or simplifying frames’ to filter, organize and process information in order to act at all. Clearly cognitive schemas may play an important role in how individuals make sense of material reality and then in turn how constructivists interpret economic action.

Work by comparative political economists such as Schmidt (2002) and Blyth (2002) best illustrate the third pathway, that of uncertainty. As opposed to nonconstructivist theories which tend to assume a materially unambiguous world comprised of actors with clear interests that may or may not be realized depending on available resources, information asymmetries and various impediments to collective action thereby allowing the analyst to explain outcomes or actions in terms of calculable risks, this type of constructivism draws insights from Keynes who found the knowledge of the world to be so “fluctuating, vague and uncertain” as to render classical economic theories and indeed a scientific basis on which to from calculable probabilities to explain things such as wealth accumulation as ineffectual or even inappropriate. “We simply do not know” (See epigraph on page 1 and discussion on page 12). Constructivist who take the path of uncertainty accept the unpredictability of IPE outcomes and therefore enlist the working hypothesis that to cope with existence in such an uncertain world, agents “construct stability

through the development and deployment of governing ideas, institutions, norms and conventions ((Abdelal, et al., 2010:12, Blyth, 2006, March and Olsen, 1996, Schmidt, 2002).

Finally, the subjectivity route to constructivism (where most postmodern and critical theorists operate) is likely to be the least compelling to mainstream scholars due to their more relativistic epistemologies, however, the editors usefully point out that despite differences over epistemology, nonconstructivist arguments about objective rationality of observed behavior can engage or at least consider claims about actors' subjectivity. While maintaining that actors' identities are deeply socially constructed, the path of construction for these approaches is not through meaning, cognition, or uncertainty as for three other modes of constructivist theorizing, but rather occurs at two levels. First, these scholars think in terms of subjects as opposed to preexisting agents. Secondly, such subjects inhabit discursive fields or social contexts within which what the subjects 'truly believe' is less significant than what is made possible or impossible by the position of oneself within a given discourse. "As a consequence, such scholars' positions on what norms "do" differ from those of other constructivists in that they do not see norms as simply regulative or even constitutive features of the world. Rather, norms are seen as expressions of power in the world insofar as adherence to a norm excludes particular actions by defining what it is possible and impossible to say and this do in a given context" (Abdelal, et al., 2010:13) Charlotte Epstein's study of how whaling came to be banned in 1982 (through the mobilization of nonstate actors in the 1970s) and remains "discursively delegitimated" to this day illustrates this logic well in that the extent to which being labeled a "good anti-whaling state" makes it impossible to even consider overturning the moratorium despite the evidence of ample whale stocks today (Epstein, 2008). The next example given is more pertinent for asserting the value of constructivism for IPE. In a study of modern innovations in finance, Marieke de Goede (2005) reverses Epstein's problematic and asks instead how do practices once frowned upon or deemed abnormal come to be seen as normal?

Unlike whaling, much of modern finance, such as futures markets, options, swaps, and the like, was once seen and outlawed as as petty "gambling." However, with the invention of "technologies of risks"—themselves simply the mathematical extrapolation of the same gambler's problem of pricing—what was once outlawed became not only respectable but a cornerstone of the modern economy. In elaborating this genealogy, scholars emphasizing the problematic of subjectivity argue that it allows us access to a way of knowing the subject that other approaches lack. As such, this is an explanatory project; and it is thoroughly constructivist (Abdelal, et al., 2010:14).

In sum, each of these four foundational rationales or justifications for employing constructivist approaches may have insights to offer as well as complementary rather than necessarily alternative or competitive renditions of or accounting for the world as it exists. As the authors put it: "Constructivism, as its name suggests, is mainly about a dynamic process of social construction that engages directly with other dynamic claims about how the world came together" (Abdelal, et al., 2010:19). In an inventive conclusion to the volume, the editors probe what constructivist theorizing can contribute to our understanding of the crisis by first offering a completely materialist account of the crisis and then showing how the constructivist analyses by their contributors deploying the pathways of meaning, cognition, uncertainty and subjectivity variously challenge or disturb the purported material certainties of the crisis. Such a clever and



compelling approach to synthesizing the arguments of the wide-ranging contributors does not lend itself very well to further summary here, but perhaps the cumulative insights of the editors and their contributors introduction can be encapsulated in the following Latin terms that they themselves invoked albeit not in the exact terms as we seek to here: *Qui Bono*, *Qui Termino*, *Qui Dicto*? Most IR and IPE scholars are familiar with the first phrase as perhaps the classic question or central concern of IPE. In fact this can be attributed to one of the founder's of the subfield, Susan Strange, an iconoclastic thinker whose body of work is as 'unfenceable' as she herself thought the terrain of IPE inquiry should be (Tooze and May, 2002) and whose analysis was persistently guided by the determination to uncover "who benefits". Many theories, frameworks and methods direct scholars who seek to answer this question-- including constructivists, yet what the collective contribution of constructivism is in all its guises and varying epistemologies is that knowledge and understanding of something as complex as the current financial crisis requires that we layer into the core question the other two--who gets to define and who gets to speak? Underscoring their commitment to intellectual openness and particularly engagement between constructivists and nonconstructivists, the book concludes with four injunctions worth quoting at length here.

The first is to pay attention to uncertainty and the construction of interests. Interests are marvelous explanatory tools, but they are also things that need to be explained. They are often demonstrably opaque to the agents that supposedly have them, and we should remember that before we assert that they are always and everywhere in the driver's seat. The second is to pay attention to the politics of meaning....[w]hat a policy means is as important as what it does....[w]ho gets to define what something is—that is, to impart meaning to an outcome, and thus what we should do about it—requires our sustained scholarly attention. Third, there are inescapable politics of cognition. That is, how do agents respond to periods of stasis and change given the neural technology they bring to bear on the opaque and nonlinear outcome generator that is the international economy? How such heuristics, biases, and frames override supposed materially generated axiomatics of behavior is also extremely important. Fourth, the politics of identity supervenes on all the above. The subject position occupied by an agent in a discursive field creates the parameters of the possible for any politics. Forgetting this aspect of how discourses and identities both empower and disempower agents leads to a materialist reductionism that can only narrow what we know about the world (Abdelal, et al., 2010:238)

In the next section we begin to outline an analytical framework that follows the spirit of these injunctions in order to make sense of the on-going European debt crises and the bewildering recourse to austerity measures even as the IMF and the US counsel against it. Some might refer to this moment in the global political economy as more or less neoliberalism redux, yet others, including Abdelal, Blyth and Parsons, claim that the era of neoliberalism is over. Market fundamentalism seems quite resilient in the United States, yet we think it does not accurately or fully explain developments in Europe. Drawing on tools from both constructivism and more critical (specifically, Gramscian and Polanyian inspired) IPE may help us more reasonably understand the crisis and responses on both sides of the Atlantic and push beyond the

temptation to fall back on old orthodoxies and worn-out, threadbare ideologies and simplifications about the logic of capitalism(s).

## Analytical Framework

This paper is centrally concerned with the contestation over economic norms in the European Union as a basis for understanding how and why economic policy in the EU has taken the form and direction it has in the post-2008 crisis period. This is a huge subject, and the magnitude of the economic crisis confronting the EU and the world means that scholars will be analyzing the same issues we are concerned with for years to come. Moreover, since the crisis is ongoing, ours can only be a first cut at understanding its dynamics. To do so we draw on the discursive turn in International Relations as a means by which scholars can gain insight into the ways in which policy makers and societies constructed the crisis and came to understand their policy options. Analyzing the structure and imagery of the discourses has the potential to illuminate not just the dynamics of political contestation but also the social structures with which political actors are engaged.

Key to our approach is communicative action. We do not forward a theory as such, but rather—in keeping with Schmidt’s discursive institutionalism (Schmidt, 2010)—emphasize the importance of contestation and construction through discourse of ideas and ability of these discourses to produce behavior. However, as Checkel suggests, these discourses and the norms they embody do not float freely. Instead they are shaped by the social structures with which they interact. Thus, regardless of the motivations of the political actors drawing on the discourses, the prevalence and success of specific discourses suggests the contours of the social structures with which they are engaged. Discourses unmoored from social structures (what Checkel calls cultural match and Cortell and Davis call salience) will fail to find political traction. In part this is because humans are social creatures, and rely on social structures to make sense of their world (Hayes, 2012). In part it is because humans are habitual creatures (Hopf, 2010), and social structures represent habituated modes of thinking. Thus, when we examine economic discourses in Europe, we are looking at not just which norms political actors use, but how they use norms as well as the discursive constructions that surround them. In doing so, we do not preconceive a theory regarding the form of the discourses, but rather take an inductive approach that allows the discourses to emerge through interpretation. To be clear, we are certainly not proffering a deductive theory of why certain norms are empowered, but instead we examine contestation through discourses in a more inductive fashion.

As both Checkel and Cortell and Davis argue, political structure is important for understanding why some norms are empowered over others. In the EU context, however, the picture is more complicated than these authors allow. Because of the multilevel nature of EU governance, policy results from political dynamics not just within states, but also between states within the EU and between member states and the European Union political units. And, in the context of the global financial crisis, we also now have to account for the intervention of the IMF and the actions of the United States given the economic and financial interpenetration of the transatlantic economies. Thus, political structure does not fit neatly within Checkel’s typology of Liberal, Corporatist, Statist, and State-Above-Society (Checkel, 1999:90). The EU is simultaneously different political structures. In subjects areas like national defense where the national level remains ascendant, this multiplicity of governance is less problematic. However, the EU is built on shared economic governance, and thus the multiplicity of governance must be

accounted for. In practice, this means we have to examine the interaction of national and EU level discourses. It also suggests that Checkel's effort to synthesize rationalist and constructivist logics into his theory becomes difficult to maintain because norms have both constitutive and constraining effects simultaneously. Furthermore, the complexity of the EU system suggests that Checkel's claim that constitutive effects are limited in highly politicized situations is problematic. The very complexity of the system lends strength to constitutive dynamics because they simplify complex political and social calculations.

## **Global Economic Norms and European (Dis)Empowerment**

From the outset of the crisis, two global discourses suggest fairly unified sets of economic norms.<sup>1</sup> For ease of reference and in keeping with popular nomenclature, we call these two packages of norms growth and austerity (European Parliament, 2012). These approaches, built loosely on the contrasting approaches of John Maynard Keynes and Friedrich Hayek, generally parallel social democratic and liberal approaches to political economy. According to growth norms, governments should actively intervene to prop up flagging economies during downturns and inject economic resources through deficit spending to revive demand. Austerity norms hold that government should restrict its interference in the economy during downturns as a necessary route to economic rebalancing that will ensure growth in future years.

Owing to constraints on time, we undertake only an exploratory analysis of the discursive construction of economic norms, with a specific focus on Germany. Future versions of this study will expand the analysis to include other countries, specifically France, and EU level discourses. We anticipate that discourses in France will prove particularly illuminating owing to the shift in government control from Nicolas Sarkozy to Francois Hollande. So why focus on Germany? Throughout the crisis, Germany has occupied a, if not the, leading position in fashioning the economic policy response in Europe. From that standpoint alone, Germany must be a primary case study. Additionally, however, is the tension inherent in Germany visibly taking the lead within Europe. As one of us finds elsewhere (Hayes and James, 2012), Germany in the post-Cold War world has conscientiously sought to avoid outright leadership positions in Europe, instead striving for consensus. Thus, the agency of German policymakers and the interaction of that agency with German social structures in the context of economic norms takes on increased salience.

In her 2012 New Year's address, German Chancellor Angela Merkel framed Germany's economic policy as a means of solidifying the European community (Merkel, 2012). After mentioning the reconciliation of Germany and France in the Elyse Treaty (key to the European community), Merkel laid the groundwork for understanding policy through the community lens by linking economic activity with community and social cohesion:

There are friends and neighbors who take the initiative or put problems right. There are the families who provide loving care for their children and their family members every day. There are trade unionists and entrepreneurs who work together to ensure job security.

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<sup>1</sup> Although we do not address the issue here, it is an interesting question as to why these two normative systems became the primary lenses through which the crisis was understood at the global level.

Merkel then carried this theme of community into a construction of the EU debt crisis, with the addition of the concept of balance:

We need the right balance for our prosperity and our cohesion. We need a willingness to achieve as well as social security for all.

The European sovereign debt crisis shows us how important this balance is. The reforms we have agreed to are beginning to take effect. But we still need a lot of patience. The crisis is far from over.

More needs to be done internationally, as well, to monitor the financial markets. The world has not sufficiently learned the lesson of the devastating financial crisis of 2008. For never again must such irresponsibility be allowed to take hold as it did then. In the social market economy, the state is the guardian of order, and the public must be able to place its trust in it.

Several points are interesting here. Merkel constructs Germany's preferred economic policy as building a European community ("for all") as well as a means to social security. This fits with post war uneasiness of Germans to take high profile policy leadership positions in Europe. At a press conference earlier in 2012, Merkel again sought to construct German policy as following from a broader EU consensus. In discussing the 'negative feelings' toward the German position in Greece, Merkel argued "in Greece, some people tend to forget that I didn't think up these programmes but rather that they're all from the ECB, the European Commission and the IMF... didn't invent them, I couldn't just think up such economic programmes even if I wanted to" (The Local, 2012). Merkel's policy is not a means of asserting German authority, but rather a means of strengthening the European community and ensuring European welfare. This theme was consistent in Merkel's representations of German policy. In a September 2011 speech to the German Bundestag, Merkel repeated emphasized the importance of 'more Europe' and that German policy was intended to ensure a 'humanitarian and responsible' Germany within a united Europe (Merkel, 2011). Combined with the concept of balance, a message of fairness is communicated to the audience. German policy then is a matter of ensuring fairness, which is a principle norm of liberal economic systems—they (purportedly) ensure a level or fair playing field. This is in contrast to social democratic systems, where the norm of equality plays a greater role in shaping economic policy. Interesting is her invocation of the 'social market economy,' where there is clearly greater emphasis on the market than we might expect in a social democratic context. Her conceptualization of the role of government fits with this construction and with liberal political economic norms. Rather than acting directly to ensure social welfare, as in social democratic redistribution programs, the role of government is to regulate economy to combat bad behavior.

Obviously, the temporal scope of this data is not sufficient to draw anything but the most tentative of conclusions, and in future iterations of this paper more texts will be incorporated to strengthen the empirical basis for conclusions. From the texts included here, however, some conclusions can be made. Merkel's discourses suggest that there is a strong norm operative within German society for avoiding overt European leadership. Merkel goes to some length to disavow responsibility for the austerity policies. The emphasis on social market and the reliance on the state and a regulator suggest strong German norms regarding the role of the state in the

economy, in contrast to traditional liberal efforts to minimize the state. However, the implicit reliance on the concept of fairness suggests a level of compatibility with liberal economic precepts that enables Merkel to pursue austerity measures with regard to the rest of Europe. Missing in the constructions, at least those we have covered here, is a sense of an ‘us versus them’ identity as a basis for policy. Indeed, Merkel consistently emphasizes the importance of community and the cohesion of the EU. This might suggest a reticence on the part of Germans to view the crisis through that lens.

What this initial analysis suggests is that the more meaning-oriented, identity-based, constructivist argument, while certainly instructive about the specificities of national self-understandings in relation to global economic norms, does not tell the full story or explain the conundrum of why there seems to be a flip-flop of European and US responses to the crisis with the EU taking a more disciplinarian approach and the US purportedly becoming more strongly Keynesian or as the cover of *The Economist* portrayed it “America Turns European” with the mock-up of President Obama sporting a French beret and baguette as if to suggest a new American era of social welfarism. Rather than proposing a competing or alternative interpretation, what our framework seeks to do is first investigate what a narrative that simultaneously takes into consideration the transatlantic and global dimension might elucidate. What we wish to argue is that to understand both the causes as well as the responses to the crisis on both sides of the Atlantic, analysts have much to learn from a combination of empirically based, yet competing materialist interpretations of the economic logics and policy stances in the transatlantic space. A re-examination of the 2007 argument by Cafruny and Ryner (2007) in light of the crisis at first glance may seem to affirm the thesis that indeed Europe is in the shadow of US -led neoliberal hegemony, yet the flip-flop referred to above confounds this as well. One could easily assert the contradictions of capitalism as the first entry point into solving the paradox, yet two other recent studies instantly reveal the limitations of this more orthodox, historical materialist approach. First, Schelke’s (2005, 2006) work had also previously elucidated the disciplinarian approach to macroeconomic policy in EU policymaking yet his argument did not share the neo-Gramscian logic of *Europe at Bay*. Further, the recent analysis by Woll in the Abdelal, Blyth and Parsons volume reveals that scholarship that assumes the neoliberal and liberalization preferences and interests of business (both US and European) are simply incorrect (Woll, 2010). In a study of US and European telecoms and airlines, she finds that firms on both sides of the Atlantic were not quick proponents of liberalization as assumed and that classic trade policy predictions based on purely material interests of firms fail to account for the actual policy stances observed. Her analysis illustrates with empirical evidence that rational choice accounts that assume economic interests of firms are flawed in part because they rely on a presumption that interests are exogenous to the policy process whereas in her case studies, it is evident that firms faced with uncertainty were essentially constructing and reconstructing and essentially trying to figure out what their interests really were throughout the process of liberalization of their industries. What these studies have in common is that they the level of analysis at which they are operating takes the EU and the transatlantic contexts into consideration even if the theoretical orientations are divergent. A look at Schelke’s (2012) recent comparative analysis of the crisis responses by European and US policymakers will further support the position we are advocating.

In a strictly empirical examination of the actual policy responses taken by the EU and the US in the early period of the crisis, Schelke challenges the conventional wisdom that the stimulus responses were vastly different. He shows with hard data that the actual differences had

to do with approach more than effects with the US bailing out banks and the European using automatic stabilizers. What the analysis reveals is that the European and US responses are not in fact as different as has been assumed but the norms invoked and the rhetoric used differ in significant ways. In the United States, the policy response was constructed as exceptional, a situation that represented a departure from sound economic policy as traditionally understood: “the US had to suspend the good governance principles of refraining from fiscal activism, ensuring the material independence of the central bank from the Treasury, and exercising budgetary oversight under the norm of economic efficiency.” In the EU by contrast, the response to the crisis, and the institutions it was directed through, were constructed as embodying traditionally accepted economic governance principles: However, as Schelkle nuanced analysis shows: “good governance institutions have proven their political value to governments throughout this crisis, especially since the lack of joined-up stabilization efforts has not hindered reasonably effective crisis management domestically. Good governance institutions still have their political uses, especially in such weak polities as the EU. But they are not the embodiment of economic rationality that their proponents once thought.” (2012:44) As the author claims, her argument advances an analysis of the difference in terms of contestation over the boundaries between macroeconomic stabilization and distributive politics. What is important in her analysis for our purposes is to underscore (more forcefully than she did herself perhaps) how the norms and the discourses around them vary more than the actual content or effect of the policies themselves.

Paradoxically and contrary to what the philosophy of good governance states, prioritizing economic stability in a crisis meant that US authorities had to ignore the boundaries drawn by these institutions while member states in the EU insisted on respecting them for political reasons, even though this was economically destabilizing. What is noteworthy about the figures for Europe is the diversity of responses, contradicting the view that the fiscal framework imposes a one-size-fits-all policy. It can also explain why it has been difficult to get a sense of the EU’s response (Blanchard, 2009; Krugman, 2009). National rhetoric has typically been the opposite of action: while the German government has been vocal about the need for fiscal restraint, it decided on one of the larger discretionary packages, while France and the UK, urging their European neighbors to go for large interventions, stimulated much less. (Schelkle, 2012:44)

In the end, Schelkle’s observations about the outcome of economic policy in the US and EU and the relationship of those outcomes to US and EU institutions draws attention back to our central premise: that economics is social. Certainly, materiality matters—understood both in neoliberal and historical materialist terms—but materiality operates in a social context, and thus in conjunction with ideational and sociological factors. Focusing on materiality to the exclusion of the social dynamic it occurs within means that analysts and policymakers end up with a narrow dichotomous perspective focused on economic rationality and irrationality. Accordingly, the emphasis is on how to engineer out ‘irrationality.’ The cost is that analysts fail to see that ‘irrationality’ is an irrevocable element of economic processes, because those processes are not purely, or perhaps even predominantly, material.

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